

BILL # HB 2337

SPONSOR: Mason

TITLE: energy standards; buildings; contracting
(S/E subject: energy standards; buildings;
contracting)

STATUS: As Amended by House WE

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FISCAL ANALYSIS

Description

The bill establishes energy efficiency goals for residential and commercial construction, schools, and state buildings; allows state agencies and school districts to enter into energy performance and renewable energy power purchase contracts; and includes several reporting requirements.

Estimated Impact

Given both the short time frame to respond in a fiscal note and the wide-ranging nature of the bill, it is difficult to estimate the impact with any degree of certainty. The energy efficiency requirements would appear to have short term costs and long run savings, but we do not currently have estimates on the magnitude of these particular cost impacts. Energy contracts could result in lower energy costs after the term of the contract is complete, but those potential savings are unknown since it cannot be determined which and how many agencies will use these contracts.

Analysis

The bill includes the following energy efficiency and reporting requirements:

Energy Efficiency Requirements

Statute currently mandates all Arizona Department of Administration (ADOA), Arizona Department of Transportation, and Arizona Board of Regents buildings to reduce their energy use, from FY 2002 levels, by 15% per square foot of floor area on or before July 1, 2011. The requirements for these buildings would be extended to a 20% reduction on or before July 1, 2015 and a 30% reduction on or before July 1, 2020. Reducing energy consumption can require upfront costs such as new equipment or the weatherization of buildings, which may be offset in the long-term with lower utility costs.

NAU estimates that compliance with the July 1, 2020 goal of a 30% reduction in energy usage would cost the university \$82.0 million in upfront costs. The debt service on the bonds that would be issued to cover this cost would amount to \$5.7 million annually. According to NAU, offsetting this cost would require an 84% reduction in their current utility costs. As a result, NAU estimates the cost savings would not be sufficient to cover the debt service. UA reports that due to the size of their research facilities, implementing the provisions of this bill would result in an incalculable cost due to the loss of grants, efficiencies, and other components of the research process. ASU estimates the bill to have no impact since they are currently doing everything that the bill requires.

All state agencies are currently required to acquire energy efficient products that meet or exceed the certifications of the U.S. Department of Energy, the U.S. Environmental Protection Energy Star program, or the Federal Energy Management program. This requirement would be extended to school districts, community colleges, and universities. The bill would have a short run cost for those agencies and schools that do not already use these types of energy efficient equipment as energy efficient products are typically more expensive. The magnitude of the impact would depend on the products purchased, the price differential, the level of utility savings, and the products' useful life.

All state agencies, school districts, and universities would be required to use or purchase at least 10% of their energy requirements in public buildings from renewable sources on or before July 1, 2015. This may require the state to pay a

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premium from utilities. However, as renewable sources increase as a portion of total sources of energy, any premium would decrease.

All state agency buildings constructed on or after July 1, 2010 would be required to conform to Leadership in Energy and Environmental Design green building rating standards, unless the standard can be shown not to be cost-effective when all costs over the life of the project are considered.

Statute currently requires ADOA to enter into energy performance contracts to achieve energy savings. The purpose of the contract would be extended by the bill to include implementing renewable energy projects and water conservation measures. The ADOA director would be required to enter into energy performance contracts to finance energy efficiency and renewable energy projects. The contracts may use lease-purchase or third-party financing. The qualified provider or energy service company would be required to guarantee that energy or cost savings shall at least cover the debt service payments and related costs.

The bill repeals A.R.S. § 34-453, which requires half of all state energy cost savings to be used solely for the purpose of acquiring additional energy cost savings measures.

The following voluntary statewide goals would be established for energy efficient residential and commercial construction: 15% reduction by 2012, 30% by 2016, and 50% by 2020.

Reporting Requirements

The Department of Commerce's Energy Office (DOCEO) would be required to track the number of energy efficient buildings constructed. Municipalities and counties that compile data on energy efficient buildings would be required to provide that information to the DOCEO annually. Beginning in 2010, the DOCEO would be required to submit an annual report with this information to the Legislature. According to the Department of Commerce, they estimate a need of 3 - 3.5 additional FTE Positions and about \$349,000 annually in order to implement the bill's reporting requirements.

Local Government Impact

As described above, reducing energy consumption could result in upfront costs to school districts, but these costs may be offset in the long-term.

This bill would also require that the value of energy efficient equipment not be applied towards the overall value of a home when appraised for property taxes. The Department of Revenue (DOR) reports that under current valuation methods most homes with energy efficient equipment are valued at the same level as comparable homes without. However, new housing developments with energy efficient equipment are allowing for assessments that would include a premium for the equipment. DOR could not provide an estimate of this provision's impact given the lack of available data.

Energy Efficiency Requirements

School districts would be required to "achieve the goal" of reducing school district-wide average energy use, from the FY 2002 levels, by 10% per square foot of floor area on or before July 1, 2012, by 15% on or before July 1, 2016, and by 20% on or before July 1, 2019.

School districts would be required to retain any savings that are achieved as a result of guaranteed energy savings contracts to help defray the cost of the project. A guaranteed energy cost savings contract is used for implementing one or more energy cost savings measures.

Reporting Requirements

Beginning on January 1, 2012, each city, town, and county would be required to report to the DOCEO on the energy efficiency of building permits they receive. In 2013 through 2021 they would be required to report on the energy efficiency of the building permits they issued in the preceding calendar year.

There would be minimal costs associated with the increased reporting requirements for cities, towns, and counties. The League of Arizona Cities and Towns estimates a minimal fiscal impact associated with the re-tooling necessary to allow localities to comply with the new reporting requirements, but they did not provide an exact potential impact.

Each school district would be required to report each guaranteed energy savings project, the qualified provider, the total cost of the project, and the expected energy and cost savings to the DOCEO. For the first 3 years after installation, qualified providers would be required to report to the Superintendent of Public Instruction and the DOCEO on the savings generated by a guaranteed energy savings contract.

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